



Enforcement uncertainty

Set-back for STS-eligible issuance

The recent statement issued by the Joint Committee of the ESAs (SCI 4 December) is unlikely to be sufficient to assuage securitisation market concerns on its own. Such regulatory uncertainty is expected to further delay the emergence of STS-eligible securitisations in the pipeline.

“The statement by the Joint Committee of the ESAs acknowledges the concerns about the draft reporting templates, with respect to the disclosure requirements under the Securitisation Regulation,” says Merryn Craske, counsel at Mayer Brown. “However, this statement on its own may not be sufficient for market participants, who will want comfort on how their national regulators intend to enforce the new rules.”

She continues: “In addition, the extent to which the various issues that have been raised will be resolved and the timing of the finalisation and adoption of the technical standards remain unclear. The market needs workable solutions, clarity and certainty.”

Such uncertainty is expected to further delay the emergence of STS securitisations in the pipeline. JPMorgan European ABS analysts anticipate an STS market to develop over the course of 2019 - led initially by large, programmatic issuers – as institutions “seek to demonstrate a commitment to the spirit of the legislation”.

However, they believe that institutions intending to launch STS transactions will prioritise achieving the correct process over speed of execution. Against this backdrop, the analysts project a total of €35bn-€40bn of distributed STS securitisation issuance in full-year 2019, representing just over half of their full-year expectation for total European ABS issuance (assuming UK issuance will be eligible as STS).

“In our view, one potential downside risk to STS supply is the significant liability involved - even if only in the event of negligence - which may deter some issuers from seeking to issue STS deals,” the JPMorgan analysts note.

From a pricing perspective, they suggest that tiering will emerge between STS and non-STS transactions within the same asset class. “Amidst what we believe will be a more challenging issuing environment in 2019, we are interested to observe whether, on balance, STS transactions can price tighter than current levels, or

whether pricing levels on non-STS transactions will have to widen more significantly from here. The preferential capital treatment (and LCR HQLA Level 2b eligibility) that STS positions will offer banks going forward – with the revised securitisation risk weights under the CRR applying from 31 December 2019 – means that bank investors should be willing to pay up for this benefit, contributing to tighter pricing relative to non-STS deals.”

A transaction can only be STS-eligible if the originator, sponsor and SSPE (securitisation special purpose entity) are established in the EU. “It also seems quite unlikely that ABCP programme sponsors will seek to make their programmes STS. I would certainly expect that there will continue to be a market for non-STS transactions,” concludes Craske.